



# Reflec plc

Annual Report and Financial Statements

**Year ended 29 February 2008**



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# DIRECTORS AND ADVISERS

**T M Robinson**

Chairman

**J R Kinder**

Finance Director

**P W Holdcroft**

Group Managing Director

**Dr B F Sagar**

Non-Executive

**A J T MacPherson**

Non-Executive

**J C James**

Non-Executive

**Company Secretary**

I Leighton

**Corporate Governance Standing Committees**

Audit Committee and Remuneration Committee

Dr B F Sagar

J R Kinder

A J T MacPherson

**Registered office**

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Cheshire

CW7 3QQ

**Registered number**

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**Nominated adviser and nominated broker**

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EC4M 7EN

**Auditors**

BDO Stoy Hayward

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Manchester

M2 1WE

**Solicitors**

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Computershare Investor Services PLC

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83 Mosley Street

Manchester

M2 3LG

**Principal bankers**

The Cooperative Bank

PO Box 101

1 Balloon Street

Manchester

M60 4EP



## Introduction

The audited financial statements for the year to 29 February 2008 show a loss before tax of £832,000 (2007: Profit £102,000). This result is significantly affected by decisions that your Board have made to impair 100% of an intangible asset of £339,000 in the books of Perseus Global Security Technologies Limited ("Perseus") to impair by £361,000 a loan due from Reflec USA Corp ("Reflec USA") (the Group's 50% joint venture in the United States) and to impair by £70,000 goodwill relating to that joint venture.

## A new Strategy

On 15 May 2008 the Board decided to implement a new strategy for the Group and allow Perseus to continue trading for three months only from that date while efforts were made to sell or dispose of the company. These efforts are continuing. The overall losses from Perseus which are included in these financial statements amount to £529,000 (2007: Loss £154,000). Of this, £339,000 relates to the impairment, described above, of the costs of developing risk and resilience products which had been capitalised in past periods. This does not affect current cash flow. The remainder relates to operating losses of £140,000 in the year together with the 100% impairment of a £50,000 receivable booked in the first half.

In the light of the disappointing

performance of Perseus during the second half of the year and also given the current difficult financial environment, the Directors decided that they should, for the moment, give priority to the development and growth of Reflec Evolution Limited ("Evolution") and Reflec Media Limited ("Media") which have continued to perform well with strong cash generation. The Board believes that significant opportunities will emerge over the next 18 months for growth and acquisition and that they should consolidate for the moment so that the Group can accumulate cash and other resources in order to take advantage of those opportunities.

Before Group management charges, Evolution recorded operating profits of £303,000 (2007: £524,000) and Media recorded operating profits of £377,000 (2007: £270,000). Reflec USA recorded operating profits of £26,000 (2007: £32,000), of which £13,000 (2007: £16,000) is included in these financial statements.

As part of an impairment review the Board has provided for the impairment of the loan due from Reflec USA and also the goodwill which is included in the Group balance sheet and which is associated with the purchase of Reflec USA in 2002. The results of Reflec USA are consolidated on a proportionate basis and 50% of the loan is not eliminated on consolidation. The total loan outstanding from Reflec USA at

29 February 2008 amounted to £1,044,000 (2007: £1,048,000), of which £522,000 (50%) was included in the Group balance sheet before the impairment charge. The Board believes that significant opportunities continue to exist in the reflective products that Reflec USA sells in the United States, especially given the sound technological base provided by Reflec plc. Nevertheless, the current financial and business environment in the United States persuaded the Board that they should take a prudent view and provide for the impairment of the assets mentioned above. As a result, the financial statements include an impairment charge of £361,000 against that section of the loan due from Reflec USA which is included within the balance sheet, and £70,000 against the goodwill mentioned above. These provisions have had no impact on the Group's cash flow and reflect the current cautious views taken by the Board in the light of current circumstances.

The impairment of the loan due from Reflec USA is a necessary provision for risk and uncertainty. This is a correctly conservative approach, which demonstrates the intention of the Board to improve transparency of its results and their presentation. **This impairment provision does not affect or reduce the liability of Reflec USA to repay the loan in full or our determination to work to achieve this.**

# CHAIRMAN'S STATEMENT

## Core businesses

It is the Board's view that the Evolution and Media businesses form a reliable and consistent foundation for the Group's profitability and cash flow — with a platform for growth especially in Media. The operating results of these businesses before depreciation and Group management charges over the past three years were as follows:

Year to 28 February	Evolution £'000	Media £'000	Total of Evolution & Media £'000
2006	523	190	713
2007	606	282	888
2008	390	384	774

Details as to how these figures reconcile to the segmental analysis in the annual financial statements is shown in note 6.

## Board Restructuring

Given the decision not to pursue immediate growth in the security market, Mr Tim Hearley decided to resign as Chairman and Director of Reflec with effect from 20 June 2008. Mr Hearley believes in the light of the recent Board decisions set out above that his skills and experience will not be needed. In the same way, given the decision not to expand in the security market, Mr Ian Proud resigned as Director of Reflec with effect from 20 June 2008. As a consequence of these changes I was unanimously elected as Chairman of the Board from 20 June 2008.

In order to strengthen the Board and improve shareholder relations I became a Director on 18 March together with Mr Jason James. Jason and I have, to the point of this statement and Board restructure, provided our services to the Group without remuneration.

Mr Angus MacPherson joined the Board on 3 December 2007.

## Perseus

Perseus recorded operating losses in the twelve months to 29 February 2008 of £190,000 (2007 loss: £154,000) on revenue of £211,000 (2007: £52,000). As already mentioned costs of £339,000, which had been incurred in developing security products and which had been capitalised in past periods, were written off in these financial statements as a result of an impairment exercise. Further losses which have not been included in these financial statements amounted to a further £50,000 in the two months to 30 April 2008 according to management accounts. In addition, no account has been taken of the further costs of selling or otherwise disposing of Perseus which are not expected to exceed £150,000.

Overall, there was an operating cash deficit (operating losses less depreciation) relating to Perseus during the twelve months of £192,000 (2007: £203,000).

## Reflec Evolution

Reflec Evolution's customers are facing

tough competition from Asia and Eastern Europe. However, Evolution is currently ahead of budget and our continuing efforts to strengthen relationships with our customers is creating an environment for long-term business. Evolution also constantly attempts to win new business with existing and new customers, so we can optimise production capacity.

## Reflec Media

Our chromakey and visual communication division continues to perform well. The revenue for the financial year was similar to the prior year at £1,300,000 and the profits were up by 41% to £384,000 before management charges.

Sales in Europe were particularly strong but our expectations were not met in the USA because of the writers strike and uncertain economic conditions.

A lot of time and effort was spent this year with the development of Microlite, which was successfully launched in April of this year and we continued to develop MoViset which is a new version of the chromakey technology in 3D. We expect that both of these products will help to grow turnover in the coming year; £100,312 of development costs have been capitalised in the year in relation to these two products.

Reflec Media is an exciting business. As well as having significant scope for development, it benefits from an efficient



business model that I believe to be scalable. By this I mean that fixed costs for this business are not envisaged to increase proportionately or step significantly ahead of or with growth, minimising risk and maximising return.

#### **Reflec USA**

Reflec USA recorded profits of £26,000 (2007: £32,000) on revenue of £2,445,000 (2007: £2,112,000). These results were impacted by inclusion of a provision of £55,000 in respect of possible additional US import duty payable in respect of past periods.

Sales of the IllumiNITE sportswear were 30% ahead of the prior year with good margins. Given the current business environment, growth is likely to be more moderate in the current financial year. Further, the margin on sales of reflective vests to a major US customer almost disappeared due to inflation in China and an appreciation in the Chinese Yuan as compared to the US\$. Steps are being taken to address this issue.

The Group consolidates the Reflec USA joint venture on a proportionate basis and the business is run on a day-to-day basis by our partner Mr Peter Smith. During the year Reflec plc invested a further £25,000 in Reflec USA in parallel to a similar investment by our partner. The purpose of this investment was to fund the setting-up of a purchasing office in China and other infrastructure and thus provide the resources

for further growth. Reflec USA has its own banking facilities which are tailored to the seasonal needs of the business. At 29 February Reflec USA had a bank balance of £264,000 (2007: £152,000).

#### **Reflec plc**

During the year the shares in Reflec plc were consolidated on the basis of 50:1 and, by Court decision and after shareholder approval in April 2007, the share premium account was cancelled and netted against retained earnings. Given the resulting positive retained earnings the Group can now pay dividends as and when the trading position of the Group allows.

At the same time an Employee Benefit Trust was set up to provide a vehicle for distributing shares to employees under a remuneration scheme. All UK Directors and Executives surrendered all their existing share options prior to the year end pending the setting up of such a scheme — which will be fair, incentivising and performance based.

The results were impacted by substantial legal fees which were incurred as a result of these changes. In addition, the adoption of the International Financial Reporting Standards at the 2007 year end proved costly as a result of a precipitate staff resignation. Accounting and legal charges of £87,000 resulted from these measures. Given the current emphasis on cost reduction, central costs are likely to be substantially lower in the current year.

#### **Cash Flow**

After adding back the depreciation, impairments and other non-cash items, there was an operating cash flow surplus of £55,000 (2007: (£198,000)) before changes in working capital. Changes in inventories, receivables and payables resulted in a cash flow surplus of £59,000 (2007 deficit: £2,000) while investing and financing activities of the Group absorbed £264,000 (2007 deficit: (£500,000)). Overall, there was a reduction in cash resources during the twelve months of £150,000 (2007: £304,000).

#### **Marketing**

A key and immediate priority is to improve both marketing and shareholder relations. Although this process is ongoing and we have significant further scope for improvement, I am pleased to report swift progress in beginning to address this priority.

A key initial achievement is the much improved Reflec Media website ([www.reflecmedia.com](http://www.reflecmedia.com)), which was launched at the start of this year, and the process established to ensure that this is updated regularly. Reflec Media also exhibited successfully at a key exhibition in the USA. This was supported by a co-ordinated marketing and trade PR campaign that achieved considerable news coverage, reinforced reseller/customer relationships, generated enquiries and new business. As this report is being issued, Reflec Media

# CHAIRMAN'S STATEMENT

is exhibiting at a key trade show in Singapore, supporting our colleagues in that important region and later in the year will exhibit at IBC in Holland which is the largest exhibition in Europe.

Evolution maintains its proven relationship marketing approach and is pursuing further opportunities to improve its marketing approach and effectiveness.

Reflec USA is developing a number of ecommerce websites, which will enable it to complement its retail business with a higher margin online direct selling approach, reduce the impact of retail seasonality and utilise residual inventory. This approach is less geographically restricted and offers scalability. A PR programme is also under way. Reflec plc is actively working with our joint venture partner in the US to develop markets beyond the USA.

## Future prospects

The Board is very much aware that it is important the Group achieves significant growth both organically and by acquisition. Given the circumstances explained above and the very uncertain financial environment, the Board is quite certain that it is in the best interests of shareholders to, in the short term, consolidate and concentrate on the core cash generative core.

The Board is immediately implementing a comprehensive strategic review and business improvement programme that

will enable Reflec to capitalise on both internal and external growth/profit opportunities as they arise.

Finally I would like to thank our employees both here and in the United States who have shown great dedication and commitment to the Group during the often difficult and demanding circumstances.

**Tim Robinson**

Chairman

25 June 2008



The Group is not required to comply with the provisions of the Combined Code as it is listed on the Alternative Investment Market. During the year, the Board has considered the Combined Code as part of the strategic review of the business. The Group has made good progress over the year in redirecting the business and reducing its cost base. However, the Board is still accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code (appended to the Listing Rules) are currently applied by the Group.

## Directors

During the year the Board consisted of eight members: Chairman T M Hearley, the European Managing Director P W Holdcroft, the Finance Director J R Kinder, and five Non-Executives, Dr B F Sagar, I P S Proud, A J T MacPherson, T M Robinson and J C James.

A J T MacPherson was appointed on 3 December 2007 and T M Robinson and J C James were appointed on 18 March 2008.

T M Hearley and I P S Proud resigned from the Board on 20 June 2008 and T M Robinson was appointed Chairman on that date.

Details of the Board members appear on page 2 of this Annual Report. They have the high level and range of business experience which is essential to manage

effectively a business of the size and complexity of the Group.

The Board meets at least six times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated widely throughout senior management of the Group. This includes matters such as material capital commitments, business acquisitions and disposals.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

The Non-Executive Directors have a function whereby concerns relating to the Executive management of the Company can be raised with them.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Any Director appointed during the year is required, under the provisions of the Company's articles of association, to

retire and seek election by shareholders at the next annual general meeting. The articles also require that one-third of the Directors retire by rotation each year and seek re-election at the annual general meeting. The Directors required to retire will be those in office longest since their previous re-election and this will usually mean that each Director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Combined Code, but avoid the expense of amending the Company's articles to deal with this single point, the Board has resolved that each Director will retire at least every three years, even if this is not strictly required by application of the provisions of the articles.

Full details of Directors' Remuneration and a statement of the Company's remuneration policy is set out in the Remuneration Report appearing on pages 9 and 10. The members of the Remuneration Committee and the principal terms of reference of the committee appear on page 9.

Executive Directors abstain from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each Executive Director's individual package are fixed by the committee in line with the policy adopted by the full Board.

# CORPORATE GOVERNANCE

## Communication

The Company places a great deal of importance on communication with its shareholders. The full report and accounts are available to all shareholders and to other parties who have an interest in the Group's performance. Shareholders also have direct access to the Company via its Registrars and the Company response to numerous communications from shareholders also takes place via the Company website [www.reflec.com](http://www.reflec.com).

There is a regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders have the opportunity to put questions at the Company's Annual General Meeting and the Board makes a presentation at the meeting to highlight the key business developments during the financial year.

## Audit and internal control

The respective responsibilities of the Directors and the auditors in connection with the accounts are explained on pages 14 and 15 and the Directors' statement on going concern appears on page 14.

The Board has procedures in place to implement the guidance *Internal Control: Guidance for Directors on the Combined Code*. Where appropriate, improvements have been made to the monthly management information in the area of risk management and key risk indicators have been added.

The Board considers risk management

and internal control on a regular basis throughout the year.

The Directors are responsible for the Company's system of internal control which is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures that the Directors have established to provide effective internal controls are as follows:

*Financial Reporting:* A detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board. Results for the Company and for its main constituent businesses are reported monthly against the budget to the Board. Updated year end forecasts are made by all divisions at the end of each quarter which takes account of profits achieved and the current trading environment.

*Capital Investment:* The Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired. Post-investment appraisals are performed for major investments.

*Internal Control:* The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance.

*Internal Control: Guidance for Directors on the Combined Code:* The process is regularly reviewed by the Board.

*Audit Committee:* The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board and reviews the requirement for a formal internal audit function on an annual basis.

*Management Information:* Management reports on its review of risks and how they are managed to the Risk Committee. The Finance Director provides the Board with monthly financial information that includes key performance indicators.

The Audit Committee, consisting of J R Kinder, B F Sagar and A J T MacPherson, on behalf of the Board has reviewed the effectiveness of the system of internal financial control from information provided by management and the Group's external auditors.

The Audit Committee keeps the scope and cost-effectiveness of the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit for the year under review appears on page 29. The non-audit fees were paid in respect of tax advice, the level of which is considered by the Committee not to affect independence or objectivity of external audits.



The members of the Remuneration Committee are Dr B F Sagar, J R Kinder and I P S Proud.

The remuneration of the Executive Directors is determined by the Committee. The philosophy of the Committee is to offer competitive total compensation packages to attract and retain the relevant calibre of management.

### **Remuneration Package**

The remuneration package of the Executive Directors, set out in the table below, comprises the following components:

#### **Basic salary:**

Salaries are determined within the international marketplace and reflect experience and responsibility. Principal benefits include use of a motor car and medical insurance.

#### **Annual bonus:**

Directors are awarded bonuses at the discretion of the Remuneration Committee.

#### **Pension:**

The Company makes defined contributions to the Directors' personal pension plans.

#### **Share options:**

Pending the adoption of a new Executive Share Option Scheme, all Directors

surrendered their share options during the year and there were no options outstanding at 29 February 2008.

#### **Service contracts**

The Company's current policy in relation to contracts of service for Executive Directors is to provide six to twelve months' notice of termination.

The Committee intends to review the situation to ensure that this period is both in line with present practice in the marketplace and necessary to enable the Company to attract and retain the highest calibre of management. The Company takes account of the legal duty to mitigate damages. The contracts of the Executive Directors currently contain provision for payment based on six to twelve months' salary and benefits on termination.

#### **Non-Executive Directors**

The fees of the Non-Executive Directors are determined by the Board. The Non-Executive Directors absent themselves from any discussion or decisions relating to their own remuneration. The remuneration reflects both the amount of time given and the contribution made by the Non-Executive Directors to the Group's affairs, including membership of committees, and is on the basis of advice taken by the Board from independent consultants. The Non-Executive Directors do not receive any cash bonuses related to the Group's performance but may be entitled to share options.

The Non-Executive Directors' agreements provide for six months' notice of termination.

#### **Directors' interests**

The interests of the Directors in ordinary shares of Reflec plc, which are all held beneficially, are shown in the Report of the Directors on page 12.

#### **Directors' remuneration**

The Directors' remuneration for the Directors serving during the year to 29 February 2008 is as follows:

# REMUNERATION REPORT

	Salary £	Fees £	Pensions £	<b>Total 2008 £</b>	Total 2007 £
<b>Executive Directors</b>					
P W Holdcroft	83,899	—	11,200	<b>95,099</b>	77,333
P R Smith (resigned 4 September 2007)	12,816	6,000	—	<b>18,816</b>	117,355
	96,715	6,000	11,200	<b>113,915</b>	194,688
<b>Non-Executive Directors</b>					
Dr B F Sagar	14,695	16,125	—	<b>30,820</b>	27,000
T M Hearley	—	32,000	—	<b>32,000</b>	30,000
J R Kinder	13,432	31,225	—	<b>44,657</b>	18,000
I P S Proud	13,557	2,262	—	<b>15,819</b>	13,000
A J T MacPherson	4,063	—	—	<b>4,063</b>	—
	45,747	81,612	—	<b>127,359</b>	88,000
<b>Total</b>	142,462	87,612	11,200	<b>241,274</b>	282,688

# REPORT OF THE DIRECTORS



for the year ended 29 February 2008

The Directors submit their report together with the audited financial statements for the year ended 29 February 2008.

## Results and dividends

The results of the Group for the year are set out on page 17.

The Directors do not recommend the payment of a dividend.

## Principal activities, trading review and future developments

At the year end, the Company had three trading subsidiary undertakings as follows:

- **Reflec Media Limited** — Sales of visual communication products to the media, educational and other markets.
- **Reflec Evolution Limited** — Micro reduction and material processing.
- **Perseus Limited** — A security services consultancy company, using unique advanced laser scanning techniques with specifically developed software and a unique risk and resilience assessment system.

and one Joint Venture Company as follows:

- **Reflec USA Corp** — Sales of retro-reflective garments, retro-reflective tapes, inks and other retro-reflective products to retailers and other manufacturers.

On 15 May the Board decided to change their strategy and allow Perseus to continue trading for three months only from that date while efforts were made to sell or dispose of the Company.

The Report of the Directors should be read in conjunction with the Chairman's Statement which sets out an appraisal of the Group's activities, performance and development including key performance indicators.

## Financial Instruments and Risks

Details of the use of financial instruments and financial risks by the Company and its subsidiary undertakings are contained in notes 2 and 18 of the financial statements.

## Research and Development

The Group continues to invest in research and development. There were costs in respect of research and development during the year of £100,312 (2007: £31,000).

## Charitable Donations

The Group did not make any charitable or political donations during the year (2007: nil).

## Directors

The Directors of the Company during the year and their interests (beneficial unless stated otherwise) in the share capital of the parent undertaking at the beginning of the year, or date of appointment, if later, and the end of the year were:

# REPORT OF THE DIRECTORS

for the year ended 29 February 2008

	<b>Ordinary shares of 5p each 29 February 2008 No.</b>	Ordinary shares of 0.1p each 28 February 2007 No.
T M Hearley	<b>54,000</b>	42,180
Dr B F Sagar	<b>24,178</b>	458,971
J R Kinder	<b>10,000</b>	—
I P S Proud	<b>33,000</b>	23,000
P W Holdcroft	<b>15,666</b>	33,333
A J T MacPherson	—	—

On 26 April 2007 the Company held an EGM of its shareholders where it was agreed, firstly, to reorganise the share capital of Reflec plc whereby every 50 existing ordinary share of 0.1p be consolidated into 1 new ordinary share of 5 pence (see note 21).

There have been no changes to the holdings of ordinary shares of 5p each between 29 February and 9 June 2008.

Details of Directors' service agreements are set out in the Remuneration Report on page 9 of the financial statements.

A J T MacPherson was appointed to the Board on 3 December 2007. T M Robinson and J C James were appointed to the Board on 20 March 2008.

In accordance with Articles 113 and 115 of the Articles of Association J R Kinder will retire from the Board and, being eligible offer himself for re-election. In addition, A J T MacPherson, T M Robinson and J C James, being appointed to the

Board during the year, offer themselves for re-election to the Board.

On 20 June 2008, T M Hearley and I P S Proud both resigned from the Board of Reflec plc.

#### **Directors' interest in contracts**

No Director was, or is, materially interested in any contract subsisting during or at the end of the financial year which was significant in relation to the business of the Group.

#### **Profile of Directors for re-election**

##### **J R Kinder**

A Chartered Accountant and Oxford graduate, Mr J R Kinder has spent most of his career in the manufacturing industry at Managing Director level. Besides four years in a London Investment bank, he also has several years' experience as a consultant engaged in corporate finance work, company turnarounds and Non-Executive Directorships.

##### **A J T MacPherson**

Angus is an experienced international banker with over 20 years' experience in the corporate finance business. Having qualified as a chartered accountant with Coopers & Lybrand, Angus joined Samuel Montagu & Co Limited in 1984. He was appointed to the Board in 1993 before joining Trinkaus & Burkhart KGaA in Dusseldorf, Germany as a director. In 1997 Angus was appointed a managing Director in the corporate finance and advisory division of HSBC Investment Bank until 2003 when he became a founding partner of Herax Partners LLP, a corporate finance advisory practice. He joined the Board of Reflec plc in December 2007.

##### **T M Robinson**

Tim is a graduate of Lancaster University Management School and a holder of a diploma in Marketing from the Chartered Institute of Marketing. He is an



experienced management consultant with particular strengths in marketing and financial management. Tim has previously been an Executive Officer of the Charity Groundwork Tameside Limited and a Director of Urban Progress Community Interest Company Limited, both in Greater Manchester. He joined the Board of Reflec in March 2008.

#### **J C James**

Jason is a senior professional technology engineer within the Civil Service. He holds a degree in electronic engineering and is an experienced project manager with extensive knowledge in high budget production, design and research, quality and commercial projects. He joined the Board of Reflec in March 2008.

#### **Substantial shareholdings**

In addition to the Directors' shareholdings shown above, the Directors have been notified or are aware of the following interests of 3% or more in the issued share capital of the Company on 9 June 2008.

	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Barclays Share Nominees Limited	1,026,199	9.19%
TD Waterhouse Nominees (Europe) Limited	747,162	6.69%
HSDL Nominees Limited	607,326	5.44%
Fiske Nominees Limited	380,920	3.41%

# REPORT OF THE DIRECTORS

for the year ended 29 February 2008

## Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Group's financial statements have been prepared on the basis that the Group is a going concern. In forming this view, the Directors have made enquiries into the Group's prospects including a review of the Group's resources and cash flow forecasts both for the current and following financial year. This review has additionally considered opportunities of joint ventures, market developments and appropriate non-core disposals.

## Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Market for companies trading securities on the Alternative

Investment Market. The Directors have chosen to prepare the Parent Company accounts in accordance with UK Generally Accepted Accounting Practice.

## Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions,

other events and conditions on the entity's financial position and financial performance.

## Parent Company financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The



Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

#### **Supplier payment policy**

The Company has due regard to the payment terms of suppliers and for the year to 29 February 2008 will settle all undisputed accounts in accordance with payment terms agreed with the supplier. The number of days' purchases represented by year-end creditors is 40 (2007: 48).

#### **Auditors**

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them as auditors will be proposed at the next annual general meeting.

#### **Recognition and Determination**

This has been a difficult and challenging year for the Company and a turning point for the future. Difficult decisions have been made, changes implemented, weaknesses addressed and strengths reinforced.

I would like to thank all the stakeholders in Reflec for their valued contributions and support (shareholders, staff, customers, resellers, partners, suppliers and advisers). In my short time with the business, the hard work, dedication and expertise of our staff has stood out to me as exceptional. I would like to take this opportunity to extend my thanks and gratitude to my colleagues in the UK, the USA and China. They are key assets which are not included in the balance sheet.

As well as recognising the importance of these relationships/contributions, I wish to firmly convey on behalf of the Board its belief in the business, and its determination to improve and develop the business and to build value. I believe that we now have the foundation, culture and focus from which to achieve this.

The AGM will be held on 24 July 2008. Efforts are being made to arrange this at an accessible, cost-effective time and venue. Following the formal AGM, light refreshments will be provided, followed by presentations from the Company. As an essential part of the ongoing business improvement programme, the day will be concluded with a workshop for shareholders to share their valued views and ideas for business development.

On behalf of the Board

**T M Robinson**  
Chairman  
25 June 2008

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF REFLEC plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Reflec plc for the year ended 29 February 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if

information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 29 February 2008 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 29 February 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

## BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors,  
Manchester  
25 June 2008

# CONSOLIDATED INCOME STATEMENT



for the year ended 29 February 2008

	Note	Total 2008 £'000	Total 2007 £'000	Existing businesses 2007 £'000	New businesses 2007 £'000
<b>Revenue</b>	3	<b>4,079</b>	4,839	4,259	580
Cost of sales	4	<b>1,393</b>	2,488	2,125	363
Gross profit		<b>2,686</b>	2,351	2,134	217
Distribution costs		<b>88</b>	20	20	—
Administrative costs before impairment charges		<b>2,661</b>	2,156	1,803	353
Impairment of development costs	11	<b>339</b>	—	—	—
Impairment of loan to Reflec USA	13	<b>361</b>	—	—	—
Impairment of goodwill	11	<b>70</b>	—	—	—
Administrative costs		<b>3,431</b>	2,156	1,803	353
Loss on partial disposal of subsidiary		—	75	—	75
Finance costs	7	<b>3</b>	3	1	2
Finance income	7	<b>(4)</b>	(5)	(5)	—
		<b>3,518</b>	2,249	1,819	430
<b>(Loss)/profit before tax</b>		<b>(832)</b>	102	315	(213)
Tax expense/income	8	—	123	123	—
<b>(Loss)/profit for the year attributable to equity holders of the parent</b>		<b>(832)</b>	225	438	(213)
<b>(Loss)/earnings per share</b>					
— Basic (pence)	9	<b>(7.45)</b>	2.01		
— Diluted (pence)		<b>(7.38)</b>	2.00		

There were no new businesses in the current year.

For clarity, the earnings per share figure for 2007 has been restated to take into account the share consolidation (see note 21).

The notes on pages 21 to 47 form part of these financial statements.

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 29 February 2008

	Note	2008 £'000	2007 £'000
Exchange differences on translation of the financial statements of foreign entities		(13)	(141)
Exchange differences realised in year transferred to income statement		—	39
Net losses not recognised directly in equity		(13)	(102)
Net (loss)/profit for the period		(832)	225
Total recognised income and expense for the year attributable to equity holders of the parent	25	(845)	123

# CONSOLIDATED BALANCE SHEET



at 29 February 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	917		995	
Intangible assets	11	551		888	
Deferred tax asset	20	123		119	
<b>Total non-current assets</b>			<b>1,591</b>		2,002
<b>Current assets</b>					
Inventories	15	438		372	
Trade and other receivables	16	898		1,387	
Income tax receivable	20	—		4	
Cash and cash equivalents	31	203		356	
Other financial assets		7		—	
<b>Total current assets</b>			<b>1,546</b>		2,119
<b>Total assets</b>			<b>3,137</b>		4,121
<b>Liabilities</b>					
<b>Current liabilities</b>					
Bank overdraft		—		1	
Trade and other payables	17	528		536	
<b>Total current liabilities</b>			<b>528</b>		537
<b>Total net assets</b>			<b>2,609</b>		3,584
<b>Capital and reserves attributable to equity holders of the parent</b>					
Share capital	21	558		558	
Share premium reserve	24	—		13,749	
Foreign exchange reserve	24	(113)		(100)	
Retained earnings	24	2,234		(10,623)	
Employee Benefit Trust reserve	24	(70)		—	
			<b>2,609</b>		3,584
<b>Minority interest</b>			—		—
<b>Total equity</b>			<b>2,609</b>		3,584

The financial statements on pages 17 to 47 were approved and authorised for issue by the Board of Directors on 25 June 2008 and were signed on its behalf by:

**T M Robinson**  
Chairman

The notes on pages 21 to 47 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 29 February 2008

Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
<b>Cash flow from operating activities</b>				
Net (loss)/profit before tax		(832)		102
Adjustments for:				
Amortisation	15		22	
Depreciation	112		136	
Exchange differences	(13)		13	
Interest expense	3		—	
Impairment losses	409		—	
Effect of joint venture — exchange differences realised	—		(39)	
— intercompany write-down	361		(36)	
		887		96
<b>Cash flows from operating activities before changes in working capital and provisions</b>		55		198
<b>Working capital and provisions</b>				
Decrease/(increase) in trade and other receivables	137		(388)	
(Increase)/decrease in inventories	(69)		415	
Decrease in trade and other payables	(9)		(29)	
		59		(2)
<b>Cash generated from operations</b>		114		196
<b>Investing activities</b>				
Purchases of property, plant, and equipment	(34)		(222)	
Disposals	—		103	
Interest received	4		5	
Research and development expenditure	(100)		(383)	
Additional investment in joint venture	(25)		—	
Additional investment joint venture partner	25		—	
		(130)		(497)
<b>Financing activities</b>				
Purchase of shares in Employee Benefit Trust	(70)		—	
Costs of share consolidation 24	(61)		—	
Interest received/(paid)	(3)		(3)	
		(134)		(3)
<b>Decrease in cash and cash equivalents</b>		(150)		(304)
Changes in foreign exchange		(2)		(13)
Cash and cash equivalents at beginning of year		355		672
Cash and cash equivalents at end of year 31		203		355

The notes on pages 21 to 47 form part of these financial statements.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS



for the year ended 29 February 2008

## 1 Accounting policies

### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

### Changes in accounting policies

IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements — capital disclosures (effective for accounting periods beginning on or after 1 January 2007). IFRS 7 introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Where those risks are deemed to be material to the Group it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 'Financial Instruments: disclosure and presentation'. The Group has applied IFRS 7 and the amendment to IAS 1 to the accounts for the year beginning on 1 March 2007.

The following principal accounting policies have been applied consistently in the preparation of these financial statements.

### Income Statement

The Directors consider that the presentation of information about new businesses is relevant to an understanding of the financial performance of the Group. Accordingly, additional information has been given on the face of the income statement. New business in the prior year comprised Perseus and the US Joint Venture.

Revenue represents sales of goods and services to external customers at invoiced amounts less value added tax or local taxes on sales. Revenue is recognised when the risks and rewards of owning the goods has passed to the customer, which is generally on delivery, or in the case of consultancy work, when the service is rendered.

### Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries (the Group) as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method other than disclosed above (see 'first-time adoption'). In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained. Business combinations that took place prior to 1 March 2005 have not been restated.

### Minority Interests

Losses applicable to a minority interest in a consolidated subsidiary are allocated against the majority interest. If the subsidiary subsequently reports a profit, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority interest, have been recovered.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 1 Accounting policies (continued)

### Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the income statement.

### Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 29 February. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense

Impairment of goodwill is not reversed at any time.

### Joint ventures

Jointly controlled entities are included in the financial statements using proportionate consolidation. The shares of each of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-by-line basis with those of the Group. Any premium paid for an interest in a jointly controlled entity above the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities is dealt with under the goodwill policy.

Profits and losses arising on transactions between the Group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the joint venture arising on the transaction.

### Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the functional currency) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.



## 1 Accounting policies (continued)

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the foreign exchange reserve). Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

### Financial assets

The Group classifies its financial assets into the following category. The Group's accounting policy for this category is as follows:

**Loans and receivables:** These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value when the entity becomes party to contractual obligations, and subsequently recognised at amortised cost. They are reviewed annually for impairment and only derecognised when the contractual right to the cash flows from the financial asset expire or are transferred to another party.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

### Financial liabilities

**Other financial liabilities:** Other financial liabilities include the following items and the Group's accounting policy for this category is as follows:

Trade payables and other short-term monetary liabilities are recognised at amortised cost when the entity becomes party to a transaction.

### Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a finance lease), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an operating lease), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

### Externally acquired intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 1 Accounting policies (continued)

### Intangible asset

	Useful economic life	Valuation method
Patents	10 years	Multiple of estimated revenues and profits
Intellectual property rights	10 years	Estimated royalty stream if the rights were to be licensed

### Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within the cost of sales line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects is recognised in the income statement as incurred.

### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group Company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.



## 1 Accounting policies (continued)

### Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. Depreciation is provided to write-off the carrying value of this over their expected useful economic lives. It is applied at the following rates:

Plant and machinery	– 5%–25% per annum straight-line
Fixtures and fittings	– 20% per annum straight-line
Computer equipment	– 33% per annum straight-line

### Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

### Employee Benefit Trust (EBT)

As the Company is deemed to have control of its EBT, it is treated as a subsidiary and consolidated for the purposes of the Group financial statements. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the Group financial statements. The EBT's investment in the Company's shares is deducted from shareholders' funds in the Group balance sheet.

### New Standards and interpretations applied

Five interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29; Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; IFRIC 10 Interim Financial Reporting and Impairment; and IFRIC 11 Group and Treasury Share Transactions. The adoption of these interpretations has not led to any impact on the Group's accounts from adoption.

The following standards and interpretations to existing standards have been published but are not mandatory for the year ended 29 February 2008.

	<i>Effective dates (periods beginning on or after)</i>
Improvements to IFRSs	1 January 2009
IFRS 8 – Operating segments	1 January 2009
IAS 1* Amendment – Presentation of financial statements	1 January 2009
IAS 23* Amendment – Borrowing costs	1 January 2009
IAS 27* Amendment – Consolidated and separate financial statements	1 January 2009
IFRS 2* Amendment – Share-based payment: vesting conditions and cancellations	1 January 2009
IFRS 3* Revised – Business combinations	1 July 2009
IAS 32 and 1* Amendment – Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRIC 12* – Service Concession Arrangements	1 January 2008
IFRIC 13* – Customer Loyalty Programmes	1 July 2008
IFRIC 14* – IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 1 Accounting policies (continued)

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Items marked \* have not yet been endorsed by the EU at the date of these financial statements.

### Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing these accounts the Directors have assessed the facts and made particular judgements in relation to the following matters:

At the date of the accounts Reflec USA owed Reflec plc \$2,074,458 (2007: \$2,081,858), of which 50% was eliminated on consolidation. This amounted to £1,044,330 (2007: £1,048,928) when converted at a rate of \$1.9864 to £1 sterling. Normally intercompany loans are cancelled on consolidation. Since Reflec plc owns 50% of Reflec USA that proportion of the outstanding loan appears in the Consolidated Balance Sheet at a value of £522,165. Under a loan agreement between Reflec plc and Reflec USA the loan can only be repaid from dividends paid by Reflec USA. Dividends of 66.6% of profits are required to be paid as long as the results of Reflec USA are at least 15% of net operating assets. The Directors have examined this loan for possible impairment. Discounted cash flow projections have been prepared based on the audited results of Reflec USA over the past two years and taking account of forecast results for the year to 28 February 2009 and current trading conditions.

The resulting cash flow has been discounted at 18% per annum, a rate chosen to reflect current market and operating uncertainties. The key assumption that underlies these projections is a forecast growth of 10% in sales of the IllumiNite Sportswear products. Having examined these projections the Directors have concluded, on the basis of prudence, that they should provide £361,000 for the impairment of this loan.

These cash flow projections have also been subjected to a sensitivity analysis under the requirements of IFRS 7, to determine whether impairment would occur if alternative assumptions were adopted. If the assumption as to the growth rate of Sportswear sales was significantly reduced from 10% to 7.5%, the Present Value of the forecast cash flows would fall and the total value of the loan would be impaired by a further £120,000. If, on the other hand, the growth of Sportswear sales were to be higher at 15% the Present Value of forecast cash flows would rise by £500,000 and the impairment of the loan from Reflec USA would be reduced by that figure.

Perseus sales revenue for the 12 months to 29 February, 2008 amounted to £260,731. Of this, £196,000 related to an agreement reached with Serco in regard to services provided in relation to the development of a risk and resilience product. It was anticipated at the interim stage that the agreement with Serco would result in a flow of work during the second half of the year. This did not occur and sales during the second half amounted to only £34,293 with operating losses of £147,690. In the light of these disappointing results the Board decided at the year end and the lack of any tangible evidence that the situation would improve, to provide for 100% impairment of the development costs of £339,000 which had been capitalised in earlier periods together with a similar impairment of a receivable of £50,000.

## 2 Financial Instruments — Risk Management

The Group is exposed through its operations to one or more of the following financial risks:

### Market price risk

- Fair value or cash flow interest rate risk
- Foreign currency risk

### Liquidity risk

### Credit risk



## 2 Financial Instruments — Risk Management (continued)

Policy for managing these risks is set by the Board following recommendations from the Financial Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes from previous periods in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them.

### Principal Financial Instruments

The principal financial instruments used by the Group, from which financial risk arises, are as follows:

- Trade Receivables
- Loans to related parties
- Cash at bank
- Trade and other payables

### Market risk

Market risk arises from the Group's use of foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

### Foreign currency risk

Foreign exchange risk arises because the Group has an operation located in the United States of America whose functional currency is not the same as the Group's primary functional currency (sterling). The net assets from the overseas operation are exposed to currency risk giving rise to gains or losses on retranslation into sterling.

Foreign exchange risk also arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. It is Group policy that such transactions should not be hedged by entering into forward contracts. On occasions receipts of foreign currency are held in that currency to meet payable obligations in the same currency.

It is Group policy that transactions between Group entities are always denominated in the selling Group entity's functional currency thereby giving rise to foreign exchange risk in the income statement of both the purchasing Group entity and the Group. The value of such transactions in both the current and prior years were not material. No external hedge is entered into as there is no exposure to consolidated net assets from intra-Group transactions.

The Group's foreign exchange risk is dependent on the movement in the USA to sterling exchange rate. The effect of a strengthening of the US dollar against sterling (to  $\$1.847 = \text{£}1$ ) at the balance sheet date on the Group's profits would have been an improvement of \$984, but there would have been an increase in reserves of £83,363 due to the re-translation of the opening Reflec USA balance sheet at this rate. The effect of a weakening of the US dollar against sterling (to  $2.1254 = \text{£}1$ ) at the balance sheet date on the Group's profits would have been a deterioration of \$853, but there would have been a decrease in reserves of £70,504 due to the re-translation of the opening Reflec USA balance sheet at this rate.

### Interest rate risk

Where the Group has generated a significant amount of surplus cash it invests in money market overnight deposit. The results of the Group would not be impacted materially by a change in interest rates.

### Liquidity risk

The liquidity risk of each Group entity is managed centrally by the Group treasury function comparing actual results to budgets and quarterly forecasts.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 2 Financial Instruments — Risk Management (continued)

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instruments used and their maturity date will depend on the Group's forecast cash requirements. The Group maintains an overdraft facility of £200,000 to manage unexpected short-term cash shortfalls.

Reflec USA Corp., which is 50% owned by the Group and managed by Mr Peter Smith the other shareholder, manages its own cash flow and has a bank credit to meet seasonal cash requirements. The Group has no obligation to meet any liquidity risk in Reflec USA Corp.

### Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices, are then factored into any contractual arrangements.

The Group does not have any significant credit risk exposure to any single customer save for one customer in Reflec Evolution which made up 23% of Group sales in 2008 (2007: 23%). This customer is a large and well-funded organisation with an excellent payment record. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Further details, including quantitative information, are included in note 16.

### Capital disclosures

Capital comprises share capital and other reserves. The Group's objective when maintaining capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders. In order to maintain the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

In September 2007, the court approved the cancellation of the share premium account. Accordingly the balance on the share premium account of £13,749,000 has been transferred to the Retained Earnings account thus creating a positive balance of £2,933,000.

The court also approved the Share Consolidation Scheme which had been approved by the Shareholders on 29 April 2007. Under this scheme 50 ordinary shares of 0.1p were cancelled in return for one share of 5p.



### 3 Revenue

	2008 £'000	2007 £'000
Revenue arises from:		
Sale of goods	2,531	3,209
Provision of services	1,548	1,630
	<b>4,079</b>	<b>4,839</b>

### 4 (Loss)/profit from operations

	2008 £'000	2007 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 5)	974	1,314
Impairment of development costs	339	—
Impairment of loan to Reflec USA	361	—
Impairment of goodwill	70	—
Depreciation of property, plant and equipment	112	136
Amortisation of intangible fixed assets	15	10
Research and development costs	—	31
Exchange differences	(13)	13
Operating lease expense		
— Plant and machinery	56	78
— Property	77	90
Write-down of inventory to net realisable value	—	25
Audit fees	58	59
Fees paid to the Company's auditors for non-audit services — taxation	10	10

The impairment charge on intangible assets relates to the write-off of development costs in Perseus.

Audit fees include an amount of £15k (2007: £15k) in respect of the Company.

#### Cost of sales comprises the following

	2008 £'000	2007 £'000
Costs of inventory sold	1,342	1,482
Other costs	51	1,006
	<b>1,393</b>	<b>2,488</b>

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 5 Staff Costs and Directors' Remuneration

### Staff Costs

	2008 £'000	2007 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	838	1,173
Defined contribution pension cost	52	34
Employer's national insurance contributions and similar taxes	84	107
	<b>974</b>	<b>1,314</b>

The average number of employees, including Executive Directors, during the year was 32 (2007: 29).

### Directors' Remuneration

	2008 £'000	2007 £'000
Emoluments for services	142	194
Fees	88	75
Pension contributions to defined contribution pension schemes	11	13
	<b>241</b>	<b>282</b>

Highest paid Director	2008 £'000	2007 £'000
Emoluments	84	113
Pension contributions to defined contribution pension schemes	11	4
	<b>95</b>	<b>117</b>

The highest paid Director was the Managing Director.

Directors who are in defined contribution pension schemes are as follows:

	2008 Number	2007 Number
Defined contribution pension schemes	1	2

Further disclosures on the remuneration of each individual Director are given in the unaudited Remuneration Report.



## 6 Segment information

The Group's primary reporting format for reporting segment information is business segments.

	Business segments				Group 2008 £'000	Total 2008 £'000		
	Retro-reflective products (Reflec USA) 2008 £'000	Material Processing (Evolution) 2008 £'000	Visual Communication (Media) 2008 £'000	Security Services (Perseus) 2008 £'000				
	Revenue:							
	United Kingdom	34	1,316	347			211	6
North America	1,212	—	302		11	1,526		
Europe	33	21	463			516		
Asia	7	—	116			123		
<b>Total revenue</b>	<b>1,286</b>	<b>1,337</b>	<b>1,228</b>	<b>211</b>	<b>17</b>	<b>4,079</b>		
Profit/(loss) before management charges and depreciation	20	390	384	(527)	(987)	(720)		
Management charges	—	(280)	(280)	—	560	—		
Depreciation	—	(87)	(7)	(2)	(16)	(112)		
Profit/(loss) before tax	20	23	97	(529)	(443)	(832)		
Balance sheet								
Assets	731	1,254	471	66	615	3,137		
Liabilities	(88)	(133)	(94)	(76)	(137)	(528)		
Net assets	643	1,121	377	(10)	478	2,609		
Other								
Capital expenditure								
— Property, plant & equipment	(7)	16	—	25	—	34		
— Intangible fixed assets	—	—	100	—	(12)	88		
Depreciation, amortisation and other non-cash expenses	(24)	(87)	(7)	(341)	(15)	(474)		

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 6 Segment information (continued)

	Business segments				Group 2007 £'000	Total 2007 £'000		
	Retro-reflective products (Reflec USA) 2007 £'000	Material Processing (Evolution) 2007 £'000	Visual Communication (Media) 2007 £'000	Security Services (Perseus) 2007 £'000				
	Revenue:							
	United Kingdom	—	1,494	335			52	—
North America	1,832	—	510	—	—	2,342		
Europe	—	84	349	—	—	433		
Asia	—	—	183	—	—	183		
<b>Total revenue</b>	<b>1,832</b>	<b>1,578</b>	<b>1,377</b>	<b>52</b>	<b>—</b>	<b>4,839</b>		
Profit/(loss) before management charges and depreciation	15	606	282	(154)	(436)	313		
Management charges	—	(220)	(220)	—	440	—		
Depreciation	(16)	(82)	(12)	—	(26)	(136)		
<b>Profit/(loss) before tax</b>	<b>(1)</b>	<b>304</b>	<b>50</b>	<b>(154)</b>	<b>(22)</b>	<b>177*</b>		
Balance sheet								
Assets	655	1,337	436	414	1,279	4,121		
Liabilities	(103)	(87)	(127)	(53)	(167)	(537)		
<b>Net assets</b>	<b>552</b>	<b>1,250</b>	<b>309</b>	<b>361</b>	<b>1,112</b>	<b>3,584</b>		
Other								
Capital expenditure								
— Property, plant & equipment	21	185	4	11	1	222		
— Intangible fixed assets	138	—	—	339	—	477		
Depreciation, amortisation and other non-cash expenses	(32)	(83)	(12)	(2)	(17)	(146)		

\* The profit/(loss) as stated above is profit before tax and before deducting the loss on partial disposal of the subsidiary of £75k.

The Group's secondary reporting format for reporting segment information is in geographic location. Revenue is reported by customer location and assets by physical location.

	Revenue		Segment assets		Capital expenditure	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
United Kingdom	<b>1,914</b>	1,880	<b>7,226</b>	3,032	<b>34</b>	222
North America	<b>1,526</b>	2,343	<b>(4,617)</b>	552	—	—
Europe	<b>516</b>	433	—	—	—	—
Asia	<b>123</b>	183	—	—	—	—
<b>Total</b>	<b>4,079</b>	<b>4,839</b>	<b>2,609</b>	<b>3,584</b>	<b>34</b>	<b>222</b>



## 7 Finance income and expense

	2008 £'000	2007 £'000
<b>Finance costs</b>		
Bank borrowings	(3)	(3)
<b>Finance income</b>		
Bank interest received	4	5

## 8 Tax expense

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
<b>Current tax expense</b>				
UK corporation tax and income tax of overseas operations on profits for the year	—		(4)	
		—		(4)
<b>Deferred tax expense</b>				
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year	—		(119)	
		—		(119)
Share of tax charge of joint venture		—		—
<b>Total tax credit</b>		—		(123)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2008 £'000	2007 £'000
Profit/(loss) before tax	(832)	102
Expected tax charge based on the standard rate of corporation tax in the UK of 30% (2007: 30%)	(250)	30
Expenses not deductible for tax purposes	165	(38)
Income credited, not taxable	(10)	—
Utilisation of previously unrecognised tax losses brought forward	(41)	(119)
Unused losses arising in year carried forward	160	—
Capital allowances in excess of depreciation	(18)	—
Movement in provisions	(7)	—
Short-term timing differences	1	—
Losses surrendered for R&D tax credit	—	4
<b>Total tax charge/(credit)</b>	—	(123)

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 9 Earnings per share

	2008 £'000	2007 £'000
<b>Numerator</b>		
Loss/profit for the year	(832)	225
Earnings used in basic EPS	(832)	225
Earnings used in diluted EPS	(832)	225
<b>Denominator</b>		
Weighted average number of shares used in basic EPS	11,168,257	11,168,257
Effects of:		
– employee share options	100,000	100,000
Weighted average number of shares used in diluted EPS	11,268,257	11,268,257

For clarity, the earnings per share figure for 2007 has been restated to take into account the share consolidation (see note 21).

Certain employee options have been excluded from the calculation of diluted earnings per share as their exercise price is greater than the weighted average share price during the year (i.e. they are out of the money), and it would therefore not be advantageous for the holders to exercise those options.

The following options have been excluded:

	2008 No.	2007 No.
Employee options	626,600	31,330,000

On 26 April 2007 the Company held an EGM of its shareholders where it was agreed, firstly, to reorganise the share capital of Reflec plc whereby every 50 existing ordinary share of 0.1p be consolidated into 1 new ordinary share of 5 pence (see note 21).



## 10 Property, plant and equipment

	Plant, machinery and motor vehicles £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
<b>At 28 February 2007</b>				
Cost or valuation	1,763	284	63	2,110
Accumulated depreciation	808	272	35	1,115
Net book value	955	12	28	995
<b>At 29 February 2008</b>				
Cost or valuation	1,812	163	212	2,187
Accumulated depreciation	932	149	189	1,270
Net book value	880	14	23	917
<b>Year ended 28 February 2007</b>				
Opening net book value	966	18	30	1,014
Additions	188	11	23	222
Disposals	(94)	(3)	—	(97)
Depreciation	(102)	(14)	(20)	(136)
Exchange differences	(3)	—	(5)	(8)
Closing net book value	955	12	28	995
<b>Year ended 29 February 2008</b>				
Opening net book value	955	12	28	995
Additions	28	4	2	34
Disposals	—	—	—	—
Depreciation	(103)	(2)	(7)	(112)
Closing net book value	880	14	23	917

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 11 Intangible assets

	Goodwill £'000	Development costs (internally generated) £'000	Patents and Intellectual Property rights £'000	Total £'000
<b>At 28 February 2007</b>				
Cost	474	553	411	1,438
Accumulated amortisation	—	214	336	550
Net book value	474	339	75	888
<b>At 29 February 2008</b>				
Cost	453	653	450	1,556
Accumulated amortisation	70	553	382	1,005
Net book value	383	100	68	551
<b>Year ended 28 February 2007</b>				
Opening net book value	475	—	68	543
Additions	94	339	44	477
Disposals	(85)	—	(25)	(110)
Impairment losses	—	—	—	—
Amortisation	—	—	(10)	(10)
Exchange differences	(10)	—	(2)	(12)
Closing net book value	474	339	75	888
<b>Year ended 29 February 2008</b>				
Opening net book value	474	339	75	888
Additions	(20)	100	8	88
Disposals	—	—	—	—
Impairment losses	(70)	(339)	—	(409)
Amortisation	—	—	(15)	(15)
Exchange differences	(1)	—	—	(1)
Revaluations	—	—	—	—
Closing net book value	383	100	68	551

All assets have a finite useful economic life.

The impairment loss relating to Perseus is discussed in the Critical Accounting Judgement and Key Sources of Estimation Uncertainty note (note 1).

As part of the annual impairment review the Board decided to provide £70,000 as impairment of the goodwill of £75,680 which is included in the Group balance sheet and is associated with the purchase of Reflec USA in 2002.



## 12 Goodwill and impairment

Details of goodwill allocated to cash-generating units for which the amount of goodwill so allocated is significant in comparison to total goodwill is as follows:

	Goodwill carrying amount	
	2008 £'000	2007 £'000
USA	4	74
Media	379	400
	<b>383</b>	<b>474</b>

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 28 February 2013. Other major assumptions are as follows (NB: the growth rate applies only to the period beyond the formal budgeted period with the value in use calculation based on an extrapolation of the budgeted cash flows for year 5).

In assessing the likely growth of sales in Reflec USA the prevailing business environment in the USA was taken into account together with operating issues relating to the sourcing of quality product. During the year to 29 February 2008 the margins on sales of vests to a major Company in the specification market deteriorated to break even. In view of these factors the Board decided on 10 June 2008 that a provision for the possible impairment of the loan due from Reflec USA should be raised together with a provision for the possible impairment of the goodwill of £76,000 which is outstanding in the Group balance sheet.

	Media 2008 %		USA 2008 %
Discount rate	10		10
Operating margin	25	Various in accordance with a business plan prepared by the company management	
Growth rate	20	Various in accordance with a business plan prepared by the company management	
Wage inflation	5		5
Market share	70		2
	Media 2007 %		USA 2007 %
Discount rate	10		10
Operating margin	25	Various in accordance with a business plan prepared by the company management	
Growth rate	20	Various in accordance with a business plan prepared by the company management	
Wage inflation	5		5
Market share	70		2

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 12 Goodwill and impairment (continued)

Key assumptions used in the value in use calculation of USA (Reflec Reflectives Corp) for the period are as follows:

- Discount rate is the expected effect of the time value of money on future earnings and is set with reference to historic data.
- Operating margin and growth rate – these are based on the five year growth plan enacted by the Directors.
- Wage inflation has been estimated using the historical data of the past three years, on the assumption that this level of growth is reasonable.
- Market Share has been estimated using industry specific data.

Key assumptions used in the value in use calculation of Media (Reflec Media Ltd) for the period are as follows:

- Discount rate is the expected effect of the time value of money on future earnings and is set with reference to historical data.
- Operating margin is the operating margin achieved in the prior year, increased for expected efficiency improvements before appointment of central costs.
- Growth rate is the historical growth rate amended for expected increased resulting from new products.
- Wage inflation has been estimated using the historical data of the past three years on the assumption that this level of growth is reasonable.
- Market share has been estimated using industry specific data.

The assumptions used in the impairment review have been performed on a prudent basis. The recoverable amount of the CGUs determined on the above basis is not materially higher than their carrying amount.

## 13 Financial Asset

Reflec plc is owed \$2,074,000 (£1,044,100) by Reflec USA Corp. under a loan agreement which was signed at the time that the Joint Venture with Mr Peter Smith was created. Under the proportionate consolidation procedures used in connection with Reflec USA Corp., 50% of this loan appears as outstanding in the Group balance sheet.

In assessing the likely growth of sales in Reflec USA the prevailing business environment in the USA was taken into account together with operating issues relating to the sourcing of quality product. During the year to 29 February 2008 the margins in sales of vests to a major company in the specification market deteriorated to break-even. In view of these factors the Board decided that a provision for the possible impairment of the loan due from Reflec USA should be raised amounting to £361,000 being 70% of the amount outstanding. While the Board considers that this is a prudent response to the factors mentioned above, this does not reflect any reduction in the efforts of the Board to exploit and maximise the Group's reflective technology and its value as a growing business.



#### 14 Joint venture

On 21 September 2006 the Group reduced its stake in Reflec USA Corp. from that of a 100% owned subsidiary to a 50% joint venture.

The joint venture has been accounted for by proportional consolidation. The following amounts have been recognised in the Group's balance sheet relating to this joint venture.

	2008 £'000	2007 £'000
Non-current assets	146	165
Current assets	524	491
Current liabilities	(85)	(95)
Non-current liabilities	(515)	(531)
Net assets	70	30
Income	1,207	528
Expenses	(1,195)	(514)
Profit after tax	12	14

The Group invested a further £25,000 in Reflec USA Corporation during the year *pari passu* with a further investment of £25,000 by Mr Peter Smith. The objective of this further investment was to enable the setting-up of a sourcing office in China and the further strengthening of the infrastructure by the hiring of additional key staff.

#### 15 Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	74	75
Finished goods and goods for resale	364	297
	438	372

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 16 Trade and other receivables

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Trade receivables	<b>547</b>	610
Other receivables	<b>96</b>	35
Amounts due from joint venture	<b>177</b>	528
Prepayments	<b>78</b>	214
	<b>898</b>	1,387

The Trade Receivables are £551k (2007: £615k) less a provision of £4k in respect of bad debts (2007: £5k).

The fair value of trade and other receivables approximates to book value at 29 February 2008 and 28 February 2007.

The Group is exposed to credit risk with respect to trade receivables due from its customers. The Group has approximately 260 customers in the media, chemical and retail garment sectors. The Group assesses the credit rating for new customers to minimise the credit risk. Provisions for bad and doubtful debts are made based on management's assessment of the risk, taking into account the ageing profile, experience and circumstance. Given that the number of customers limits the concentration of credit risk, the Directors consider that no further credit provision is required other than the provision for impairment of £361k (2007: Enil).

As at 29 February 2008 trade receivables of £142,462 were past due but not impaired. They relate to the customers against whom no provision is considered necessary. The ageing analysis of these receivables is as follows:

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Up to 3 months past due	<b>122</b>	180
Over 3 months past due	<b>20</b>	12
Total past due	<b>142</b>	192

At 29 February 2008 trade receivables of £4,512 (2007: £5,620) were past due, impaired and provided against. There are no individually significant receivables included within this provision. The Group takes a prudent view in assessing the risk of non-payment and considers provision for all debts more than three months in arrears unless there are specific circumstances to indicate that there is little or no risk of non-payment of these older debts.

The carrying values of the Group's trade and other receivables including pre-payments are denominated in the following currencies:

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Pound sterling	<b>583</b>	735
US dollar	<b>138</b>	125
	<b>721</b>	860



#### 16 Trade and other receivables (continued)

Movements on the Group provision for impairment of trade receivables are as follows:

	<b>2008</b>	2007
	<b>£'000</b>	£'000
At the beginning of the year	<b>6</b>	6
Provided during the year	<b>4</b>	—
At end of the year	<b>10</b>	6

The movement on the provision for impaired receivables has been included in administrative expenses in the consolidated income statement.

Other classes of assets included within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above.

#### 17 Trade and other payables – current

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Trade payables	<b>281</b>	324
Other tax and social security taxes	<b>64</b>	101
Accruals	<b>152</b>	109
Other creditors	<b>31</b>	2
	<b>528</b>	536

To the extent trade and other payables are not carried at fair value in the consolidated balance sheet, the Directors are of the opinion that the book value approximates to fair value at 29 February 2008 and 28 February 2007.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 18 Financial instruments — Currency Risk

### Foreign currency risk

Foreign exchange risk arises because the Group has operations located in various parts of the world whose functional currency is not the same as the Group's primary functional currency (sterling). Although its global market penetration arguably reduces the Group's risk in that it has diversified into several markets, the net assets from such overseas operations are exposed to currency risk giving rise to gains or losses on retranslation into sterling. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the cash flow risk created from such hedging techniques warrants the reduction in volatility in consolidated net assets.

### Foreign currency exposure

#### Cash and cash equivalents

	US Dollar £'000	Euro £'000	Total £'000
<b>At 29 February 2008</b>			
Cash	133	—	133
	US Dollar £'000	Euro £'000	Total £'000
<b>At 28 February 2007</b>			
Cash	44	43	87

#### Assets and Liabilities

	US Dollar £'000
<b>At 29 February 2008</b>	
Assets	524
Liabilities	(600)
	US Dollar £'000
<b>At 28 February 2007</b>	
Assets	491
Liabilities	(626)



## 19 Financial assets and liabilities — Numerical information

### Borrowing facilities

The Group has undrawn committed borrowing facilities available at 29 February 2008 in which all conditions have been met.

	Floating rate £'000	Fixed rate £'000	2008 total £'000	2007 total £'000
Expiry within 1 year	—	—	—	—
Expiry within 1 and 2 years	—	—	—	—
Expiry in more than 2 years	—	200	200	200
	—	200	200	200

Reflec USA Corp. has a floating overdraft facility based on the seasonal requirements of the business and which is based on a formula of working capital.

## 20 Deferred tax

A deferred tax asset has been recognised amounting to £123,000 (2007: £119,000). This equates to the amount of losses the Directors expect to be relievable against profits in the forthcoming year.

A deferred tax asset has not been recognised for the following:

	2008 £'000	2007 £'000
Deductible temporary differences	60	190
Unused tax losses	1,986	1,890
	2,046	2,080

The unused tax losses and deductible temporary differences which consists of accelerated capital allowances can be carried forward indefinitely.

As at 28 February 2008, there is a corporation tax debtor of nil (2007: £4,000).

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 21 Share capital

### Authorised

	2008 Number	2008 £'000	2007 Number	2007 £'000
Ordinary shares of 0.1p each	—	—	600,000,000	600
Ordinary shares of 5p each	<b>24,000,000</b>	<b>1,200</b>	—	—

### Issued and fully paid

	2008 Number	2008 £'000	2007 Number	2007 £'000
Ordinary shares of 0.1p each	—	—	558,412,857	558
Ordinary shares of 5p each	<b>11,168,257</b>	<b>558</b>	—	—

In September 2007 the Court approved the cancellation of the share premium account. Accordingly, the balance on the share premium account of £13,749,000 has been transferred to the Retained Earnings account, thus creating a positive balance of £2,933,000.

The Court also approved the Share Consolidation scheme which had been approved by the shareholders on 29 April 2007. Under this scheme 50 ordinary shares of 0.1p were cancelled in return for one share of 5p.

Costs of £61,000 relating to the consolidation have been recognised directly in the reserves.

## 22 Share Options

The Company operated Unapproved and Approved Executive Share Option Schemes during the year.

Pending the adoption of a new Executive Share Option Scheme, all Directors surrendered their share options during the year and there were no options outstanding at 29 February 2008.



### 23 Share-based payments

The Company operates an equity-settled share-based remuneration scheme for Directors.

	2008 Weighted average exercise price	2008 Number	2007 Weighted average exercise price	2007 Number
Outstanding at beginning of the year	1.11p	36,330,000	1.11p	36,709,747
Effect of the share consolidation		(35,603,400)		
Surrendered during the year	55p	(726,600)	—	—
Exercised during the year	—	—	0.1p	379,747
Outstanding at the end of the year	—	—	1.11p	36,330,000

### 24 Reserves

	Share premium 2008 £'000	Employee Benefit Trust reserve 2008 £'000	Translation differences on overseas operations 2008 £'000	Retained earnings 2008 £'000	Total 2008 £'000
Opening reserves	13,749	—	(100)	(10,623)	3,026
Translation differences on overseas operations	(6)	—	(13)	6	(13)
Cancellation of Share Premium Account	(13,743)	—	—	13,744	1
Purchase of shares in Employee Benefit Trust	—	(70)	—	—	(70)
Costs of share issue	—	—	—	(61)	(61)
Profit for the year	—	—	—	(832)	(832)
Closing reserves	—	(70)	(113)	2,234	2,051

  

	Share premium 2007 £'000	Employee Benefit Trust reserve 2007 £'000	Translation differences on overseas operations 2007 £'000	Retained earnings 2007 £'000	Total 2007 £'000
Opening reserves	13,749	—	2	(10,848)	2,903
Translation differences on overseas operations	—	—	(141)	—	(141)
Exchange differences realised in year	—	—	39	—	39
Profit for the year	—	—	—	225	225
Closing reserves	13,749	—	(100)	(10,623)	3,026

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 24 Reserves (continued)

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Employee Benefit Trust	Weighted average cost of own shares held by the Employee Benefit Trust. The number of shares held by the Trust is 167,000.
Foreign exchange	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.

## 25 Changes in shareholders' equity

	2008 £'000	2007 £'000
<b>Changes in shareholders' equity</b>		
Total recognised income and expense	(845)	123
Capital and reserves attributable to equity holders of the parent at the beginning of the period	3,584	3,461
Capital and reserves attributable to equity holders of the parent at the end of the period	2,609	3,584

## 26 Leases

The Group leases all of its properties. The terms of property leases vary from country to country, although they all tend to be tenant repairing with rent reviews every two to five years and many have break clauses.

The total future of minimum lease payments are due as follows:

	2008		2007	
	Land and buildings £'000	Other plant and machinery £'000	Land and buildings £'000	Other plant and machinery £'000
Not later than one year	—	12	11	5
Later than one year and not later than five years	—	43	—	66
Later than five years	77	—	77	—
	77	55	88	71

## 27 Retirement benefits

Pension costs for defined contribution schemes in 2008 are £52k (2007: £34k).



## 28 Related party transactions

On 4 September 2007 a payment of £25,000 was made to Peter Smith, joint venturer in Reflec USA Inc, as further consideration in compensation for loss of office, an event that occurred on 21 September 2006. This payment was made in accordance with the Compromise Agreement made with Mr Smith at that time.

The Directors of the Group are considered to be the key management and their salaries are disclosed in note 5 and in the Remuneration Report.

During the year a payment of £25,000 was made to Mr Peter Smith as a further payment under the Compromise Agreement which was signed with Mr Smith as part of the process of setting up the Joint Venture arrangement which is detailed in note 13 above.

## 29 Contingent liabilities

The Company has not received any notifications of any contingent liabilities as at the date of the accounts 29 February 2008 (2007: none).

## 30 Events after the balance sheet date

In the light of continuing trading losses recorded by Perseus, the Reflec Board decided on 15 May 2008 to cease funding this subsidiary with immediate effect. The Board of Perseus, which includes minority shareholders, were invited to consider ways in which the business of Perseus be funded from alternative sources. The Reflec Board assured the Board of Perseus that all obligations existing on 15 May 2008 would be met. It has been estimated that the costs of carrying out this decision should not exceed £150,000, including trading losses for the period from 1 March 2008 to 15 May 2008.

## 31 Notes supporting cash flow statement

Cash and cash equivalents comprises:

	2008 £'000	2007 £'000
Cash available on demand	203	356
Overdrafts	—	(1)
	<b>203</b>	<b>355</b>
Net cash increase/(decrease) in cash and cash equivalents	150	(304)
Changes in foreign exchange rates	(2)	(13)
Cash and cash equivalents at beginning of year	355	672
Cash and cash equivalents at end of year	<b>203</b>	<b>355</b>

# COMPANY BALANCE SHEET

at 29 February 2008

The Company's accounts were prepared under UK General Accounting Principles and not under IFRS.

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
<b>Fixed assets</b>					
Tangible fixed assets	2	—		2	
Intangible assets	3	43		52	
Investments	4	2,286		2,374	
Deferred tax assets		3		3	
			2,332		2,431
<b>Current assets</b>					
Debtors due within one year	5	45		47	
Debtors due after one year	6	3,509		4,883	
		3,554		4,930	
Cash at bank and in hand		57		138	
		3,611		5,068	
<b>Creditors: amounts falling due within one year</b>					
	7	(137)		(131)	
<b>Net current assets</b>			3,474		4,937
<b>Total assets less current liabilities</b>			5,806		7,368
<b>Capital and reserves</b>					
Called up share capital	8	558		558	
Share premium account	9	—		13,749	
Profit and loss account	9	5,331		(6,939)	
Employee Benefit Trust	10	(70)		—	
Retranslation		(13)		—	
			5,806		7,368
<b>Shareholders' funds</b>			5,806		7,368

The financial statements on pages 49 to 54 were approved and authorised for issue by the Board of Directors on 25 June 2008 and were signed on its behalf by:

**T M Robinson**

Chairman

The notes on pages 49 to 54 form part of these financial statements.

# NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS



for the year ended 29 February 2008

The following notes form part of notes for the the Company financial statements for the year ended 29 February 2008.

## 1 Accounting policies

The financial statements of the Company have been prepared under the historical cost convention and are in accordance with applicable United Kingdom Generally Accepted Accounting Standards (UK GAAP) accounting principles. The Company has taken advantage of the exemption in s230 from presenting its own profit and loss account. The principal accounting policies which have not changed in the year are:

### Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, over their expected useful lives from the date such assets are brought into use. It is calculated on a straight-line basis at the following annual rates:

Fixtures and fittings	15%–25%
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### Valuation of investments

Investments in subsidiary undertakings and joint ventures are stated at cost less any provisions for a permanent diminution in value.

### Pension costs

The Group contributes to defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge set out in note 27 represents contributions payable by the Group to the funds, all of which had been paid at the balance sheet date.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except for deferred tax assets which are only recognised to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

### Impairment of fixed assets

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

### Licence fees and patent costs

Licence fees included in intangible fixed assets are stated at cost. They are carried forward and amortised through the profit and loss account over the term of the licence/patent.

### Foreign currency

Foreign currency transactions of the Company are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

All other differences are taken to the profit and loss account.

### Cash Flow Statement

Under FRS 1 the Company is exempt from the requirement to present a cash flow statement on the grounds that this is included in the Group consolidated accounts.

### Financial instruments

Financial instruments are measured initially and subsequently at cost.

Disclosures in respect of financial instruments are included in notes 18 and 19 to the Group consolidated financial statements.

# NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 29 February 2009

## 2 Company tangible fixed assets

	Fixtures and fittings £'000
<b>Cost</b>	
At 1 March 2007 and as at 29 February 2008	126
<b>Depreciation</b>	
At 1 March 2007	124
Charge for the year	2
<b>At 29 February 2008</b>	<b>126</b>
<b>Net book value</b>	
<b>At 29 February 2008</b>	<b>—</b>
At 28 February 2007	2

## 3 Company intangible fixed assets

	Development costs and patent licences £'000
<b>Company</b>	
<b>Cost</b>	
At 1 March 2007 and as at 29 February 2008	111
Additions	6
Disposals	—
<b>At 29 February 2008</b>	<b>117</b>
<b>Amortisation</b>	
At 1 March 2007	59
Disposals	—
Charge for the year	15
<b>At 29 February 2008</b>	<b>74</b>
<b>Net book value</b>	
<b>At 29 February 2008</b>	<b>43</b>
At 28 February 2007	52



#### 4 Company fixed asset investments

	Group undertakings £'000	Intercompany debt capitalised £'000	Total £'000
<b>Cost</b>			
At 1 March 2007	1,329	1,044	2,373
Additions	26	—	26
Provision for impairment	(113)	—	(113)
<b>At 29 February 2008</b>	<b>1,242</b>	<b>1,044</b>	<b>2,286</b>

The principal undertakings in which the Company's interest is 20% or more are as follows:

Name	Country of incorporation	Proportion of ownership interest	Class of share	Nature of business
<b>Subsidiaries</b>				
Reflec Media Limited	England and Wales	100%	Ordinary	Development, manufacture and sale of retro-reflective tapes, inks and other retro-reflective products. Visual communication technology.
Reflec Evolution Limited	England and Wales	100%	Ordinary	Micro reduction and material processing.
Perseus (Global Security Technologies) Limited	England and Wales	78%	Ordinary	Security consultancy company.
<b>Joint Venture</b>				
Reflec USA Corp.	USA	50%	Ordinary	Sale of retro-reflective garments and products.

#### 5 Company Debtors due within one year

	2008 £'000	2007 £'000
Other debtors	2	—
Prepayments	43	47
	<b>45</b>	<b>47</b>

# NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 6 Company Debtors due after one year

	2008 £'000	2007 £'000
Amounts owed by Group undertakings	3,509	4,883
	<b>3,509</b>	<b>4,883</b>

## 7 Company Creditors — amounts falling due in one year

	2008 £'000	2007 £'000
Trade creditors	54	56
Other tax and social security taxes	(4)	33
Accruals and deferred income	87	42
	<b>137</b>	<b>131</b>

## 8 Share capital

### Authorised

	2008 Number	2008 £'000	2007 Number	2007 £'000
Ordinary shares of 0.1p each	—	—	600,000,000	600
Ordinary shares of 5p each	<b>24,000,000</b>	<b>1,200</b>	—	—

### Issued and fully paid

	2008 Number	2008 £'000	2007 Number	2007 £'000
Ordinary shares of 0.1p each	—	—	558,412,857	558
Ordinary shares of 5p each	<b>11,168,257</b>	<b>558</b>	—	—

In September 2007 the Court approved the cancellation of the share premium account. Accordingly, the balance on the share premium account of £13,749,000 has been transferred to the Retained Earnings account, thus creating a positive balance of £2,933,000.

The Court also approved the Share Consolidation scheme which had been approved by the shareholders on 29 April 2007. Under this scheme 50 ordinary shares of 0.1p were cancelled in return for one share of 5p.

Costs of £61,000 relating to the consolidation have been recognised directly in the reserves.

Pending the adoption of a new Executive Share Option Scheme, all Directors surrendered their share options during the year and there were no options outstanding at 29 February 2008.



## 9 Company Reserves

	Share premium account £'000	Profit and loss account £'000
At beginning of year	13,749	(6,939)
Loss for the year	—	(1,418)
Share consolidation costs	—	(61)
Cancellation of share premium account	(13,743)	13,743
Retranslation	(6)	6
At end of year	—	5,331

## 10 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Profit/(loss) for the financial year	(1,418)	(12)
Effect of joint venture — termination payment	—	(51)
Retranslation of opening balance of amount due from Reflec US	—	(263)
Costs incurred by Reflec US on behalf of Reflec plc	—	(9)
Income tax recoverable	—	3
Historical opening difference	—	(21)
Release of provision on payment of Reflec US debt	—	594
Other recognised gains and losses relating to the current year	(13)	—
Employee Benefit Trust	(70)	—
Share Consolidation costs	(61)	—
Net movement to shareholders' funds	(1,562)	241
Opening shareholders' funds	7,368	7,127
Closing shareholders' funds	5,806	7,368

The shares in the Employee Benefit Trust were acquired during the year ended 29 February 2008.

# NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 29 February 2008

## 11 Staff Costs and Directors' Remuneration

### Staff Costs

	2008 £'000	2007 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	21	28
Defined contribution pension cost	—	3
Employer's national insurance contributions and similar taxes	2	3
	<b>23</b>	<b>34</b>

The average number of employees, including Executive Directors, during the year was 1 in administration (2007: 1 admin).

Directors' remuneration is disclosed in note 5 to the Group financial statements.

## 12 Related party transactions

The Company has taken advantage of the exemption conferred by FRS 8 'Related Party Disclosures' not to disclose transactions with members of the Group headed by the Company on the grounds that at least 90% of the voting rights in the subsidiary undertakings are controlled within the Group and the Company is included in the consolidated financial statements.

On 4 September 2007 a payment of £25,000 was made to Peter Smith, joint venturer in Reflec USA Inc, as further consideration in compensation for loss of office, an event that occurred on 21 September 2006. This payment was made in accordance with the Compromise Agreement made with Mr Smith at that time.

During the year a payment of £25,000 was made to Mr Peter Smith as a further payment under the Compromise Agreement which was signed with Mr Smith as part of the process of setting up the Joint Venture arrangement which is detailed in note 13 above.

## 13 Events after the balance sheet date

Since the balance sheet date Reflec plc has acquired the ordinary shares of one of the minority shareholders in Perseus, who has now left the employment of Perseus. This employee owned 13% of the issued share capital of Perseus. The shares were acquired without consideration, due to the terms of the employee's shareholding in the event of departure. Since 100% of the profits and losses of Perseus will be consolidated until all accumulated losses have been extinguished there will be no effect upon the Group results in the year to 29 February 2008.

In the light of continuing trading losses recorded by Perseus, the Reflec Board decided on 15 May 2008 to cease funding this subsidiary with immediate effect. The Board of Perseus, which includes minority shareholders, were invited to consider ways in which the business of Perseus be funded from alternative sources. The Reflec Board assured the Board of Perseus that all obligations existing on 15 May 2008 would be met. It has been estimated that the costs of carrying out this decision should not exceed £150,000, including trading losses for the period from 1 March 2008 to 15 May 2008.

# NOTICE OF ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Reflec plc will be held at The Crewe Arms Hotel, Nantwich Road, Crewe, Cheshire, CW2 6DN on Friday 25 July 2008, at 11.00 a.m. for the following purposes:

## Ordinary Resolutions

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions:

1. To receive the Company's audited financial statements for the year ended 29 February 2008, together with the Reports of the Directors and Auditors.
2. To receive, adopt and approve the Directors' Remuneration Report for the year ended 29 February 2008.
3. To re-elect Mr John Kinder as a Director of the Company.
4. To re-elect Mr Angus MacPherson as a Director of the Company, who was appointed since the last AGM and consequently, retires and offers himself for re-election.
5. To re-elect Mr Tim Robinson as a Director of the Company, who was also appointed since the last AGM and consequently, retires and offers himself for re-election.
6. To re-elect Mr Jason James as a Director of the Company, who was also appointed since the last AGM and consequently, retires and offers himself for re-election.
7. To reappoint BDO Stoy Hayward LLP as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next Annual General Meeting of the Company and to authorise the Directors to agree their remuneration.

8. In substitution for all existing and unexercised authorities (PROVIDED that such revocation shall not have retrospective effect), the Directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the 'Act') to exercise all or any powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) pursuant to authorities previously given which may not have been effected, up to a maximum of an aggregate nominal amount of £186,100 for such purposes and otherwise in accordance with such earlier authorities.

PROVIDED THAT this authority shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the date of passing this Resolution (if earlier) unless renewed or extended prior to such time SAVE that the Directors of the Company may before such expiry of such period make an offer or an agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities in the pursuance of such offer or agreement as if the authority conferred hereby had not expired.

9. To resolve "that the Company be authorised, subject to and in accordance with the provisions of the Companies Act 2006, to send, convey or supply all types of notices, documents or information to shareholders by means of electronic equipment, including by making them available on a website".

Note for Shareholders: Under the Companies Act 2006, there are updated rules for Company communications with shareholders. Electronic communication is made easier and companies are no longer required to send paper copies of documents to shareholders. However, if a shareholder wishes to receive paper copies of documents they are still entitled to do so. Companies are required to seek shareholder consent to receive communications electronically; if shareholders do not respond within 28 days requesting paper copies, they will be deemed to accept communication electronically and will only be sent notification of where these documents can be found. Before companies can adopt the new rules, shareholders must either authorise an Ordinary Resolution for this purpose, or the Company must seek authority to amend its articles of association. We have chosen to seek shareholder approval of this proposal, via an Ordinary Resolution.

## Special Resolution

To consider and, if thought fit, to pass the following Resolution as a Special Resolution:

10. That:

- (a) Conditionally upon the passing of Resolution 8 above and in accordance with section 95 of the Act, the Directors be and are given power to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) for cash, pursuant to the authority conferred by Resolution 8 above, as if sub-section (1) of section 89 of the Act did not apply to any such allotment provided that:

# NOTICE OF ANNUAL GENERAL MEETING

- (i) the power granted shall be limited:
    - (A) to the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of shares in the Company and other persons entitled to participate in such offer in the proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or the regulations or requirements of any recognised regulatory body in any territory;
    - (B) to the grant of options to subscribe for shares in the Company and the allotment of such shares pursuant to the exercise options granted, under the terms of any share option scheme adopted or operated by the Company; and
    - (C) to the allotment of equity securities, otherwise than pursuant to sub-paragraphs (A) and (B) above, up to an aggregate nominal amount of £27,915;
  - (ii) the power granted shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company following the passing of this resolution and the date 15 months after the passing of such resolutions.
- (b)
- (i) The said power shall allow and enable the Directors to make an offer or agreement before the expiry of the said power which would or might require equity securities to be allotted pursuant to such offer or agreement after such expiry as if the power conferred in this resolution had not expired ; and
  - (ii) words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meaning in this resolution.
- By Order of the Board
- I Leighton**  
Company Secretary  
Dated 25 June 2008
- Notes:**
1. A register of Directors' share interests will, together with copies of all Directors' service contracts of more than one year's duration, be available for inspection at Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3QQ, aforesaid during usual business hours on weekdays from the date of this notice to the date of the Meeting convened by this notice and at the place of meeting for at least 15 minutes prior to and during that meeting.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
  3. A form of proxy is enclosed for use by shareholders. To be valid a form of proxy must (save as otherwise provided in the Company's Articles of Association) be deposited together with any power of attorney or other authority (if any) under which it is signed (or a copy of such authority certified notarially) or in some other way approved by the Board, at the offices of the Company's Registrars Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol, BS99 7NH so as to be received no less than 48 hours before the time appointed for the meeting.
  4. A deposit of a form of proxy will not prevent a member from attending and voting in person at the meeting or any adjournment thereof.
  5. The Company, pursuant to Regulations 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 11.00 a.m. on 23 July 2008 shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 11.00 a.m. on 23 July 2008 shall be disregarded in determining the rights of any person to attend or vote at a meeting.



